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2 Feb. 1955

MEMORANDUM FOR: Director of Central Intelligence

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SUBJECT: Reexamination of [REDACTED]

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1. The attached report has been prepared in cooperation with the Deputy Directors and the Inspector General in pursuance of your instruction. Its main objective is to be responsive to your letter of September 23, 1954 to Mr. Armstrong, which states that: "The scheduled re-examination of the method of [REDACTED] [REDACTED] in cooperation with the Bureau of the Budget and the Department of State should be concluded by 15 February 1955, in order that the conclusions of such reexamination may be reflected in the budget for fiscal year 1957."

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2. However, we have endeavored to treat the subject of reimbursement as comprehensively as possible because of questions in the past about reimbursement in other connections raised by General Cabell and the Bureau of the Budget, because of possibilities such as those raised by Mr. Amory regarding coordination of intelligence budgets (memorandum of August 11, 1954) and in view of the Inspector General's summary of our [REDACTED]

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3. It is recommended that you approve the conclusions and recommendations of this report.

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25X1A 4. While this study has dealt only with current
[REDACTED] instances there are problem areas which
should be given prompt study in the light of the conclusions
and recommendations of this paper. [REDACTED]

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Special Assistant to the Director
for Planning and Coordination

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CONCURRENCES:

15/ L. K. White
Deputy Director (Administration)

15/ Robert Amory
Deputy Director (Intelligence)

15/
Deputy Director (Plans)

15/ Lyman Kufpatrick
Inspector General

15/ C. P. Cabell
Deputy Director of Central Intelligence

APPROVAL:

15/ Allen W. Dulles March 1955
Director of Central Intelligence

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Report

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17 February 1955

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25X1A REEXAMINATION OF [REDACTED]

PROBLEM:

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1. To reexamine the existing practices of CIA regarding [REDACTED] and services rendered by the Department with regard to [REDACTED]

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[REDACTED] and to relate such reexamination to the problem of providing an adequate budget for intelligence activities important to CIA and to the national security.

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DISCUSSION:

2. It is a principle of Government that each agency has the responsibility to obtain the funds to carry out its own responsibilities with the provision that reimbursements are encouraged when a second agency is more competent or in a position to perform more efficiently a service required by the first. However, care must be exercised that reimbursement does not subvert the intent of Congress as expressed in appropriations acts and related legislative history. The NSCID's help explain why the reimbursement problem has arisen, because the Directives set the general design for the cooperative effort of the IAC community. (see Tab A)

3. Our intelligence system consists of five major intelligence producing and collecting agencies, which are essential to one another. Machinery exists for determining their functional responsibilities and for coordinating their intelligence activities but there is no requirement that each separate agency budget for

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all of the intelligence activities for which it is responsible or refrain from budgeting for unassigned and possibly duplicative activities. The collection and production of intelligence is for all of these agencies (except the CIA) a relatively small and distinctly subsidiary function within the totality of their operations. Inevitably departmental intelligence budgets (like their budgets for other purposes) are shaped in the main by departmental needs, which in turn grow out of their major functions. Yet there is no assurance that a department's functional responsibility to collect or produce a particular kind of intelligence, which presumably reflects the needs of the intelligence community as a whole, will coincide with its own felt need for that intelligence. Therefore, budgetary provision may fall short of (or exceed) that which would be appropriate to meet a national requirement.

4. While the budget responsibility generally is exercised by the agency charged with performance of function under NSCIDs, provision must be made to recognize those cases where departmental need is not coincident with functional responsibility. At least two of these situations may be described as follows:

a. The DCI's responsibility for coordinated programs bearing on national security in which each agency is to participate in accordance with its assigned area when such program demands are not coincident with departmental demands. In the case of clearly definable interagency programs requiring sizeable additional resources of participating agencies, it is desirable that there be a coordinated budget statement or central budgeting by CIA. ~~This is explained in Tab B.~~ *Let* such a specific program. There may be others. Reimbursement between agencies required by such ~~central budgeting~~ *Let* would then be appropriate.

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In certain circumstances a continuation would be appropriate

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b. The fact that an agency (in this study, the CIA) may levy requirements on another agency when such requirements demand use of, or establishment of facilities in excess of those required to meet the needs of the performing agency. Reimbursement in such case would then be appropriate. [REDACTED] (see Tab E) fits this case. This is also true of the [REDACTED] Staff (see Tab D), although it has some elements of 4(a) above. Use of [REDACTED] while not the subject of this report, clearly fits paragraph 4(b) also.

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5. The sound development of the intelligence community now requires that the IAC and the Bureau of the Budget take note of these situations and adopt procedures which will identify such cases and principles which will permit cooperative effort to meet individual agency requirements and national security programs in the intelligence area.

6. In considering the reimbursement problem in current cases we have considered in each case alternative methods of meeting the intelligence needs involved and have rejected them, (specific discussion is set forth in respective Tabs).

CONCLUSIONS:

7. That there is ^{at present} no way of ensuring that intelligence activities, especially those of national rather than departmental interest, will be supported by the agencies functionally responsible for them on a scale that reflects the interest of the whole intelligence community as well as departmental priorities.

8. That it is not feasible at this time to develop a statement covering all intelligence activities which would show the responsibility, measure the performance, and give the cost of each on a comparable basis because present budgetary and

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accounting practices do not permit the segregation of intelligence activities from other elements in departmental budgets.

9. That under these circumstances reimbursement will some times be useful as a device to ensure that intelligence programs of broad national interest, but possibly of limited departmental appeal, will be financed, and reimbursement will often be preferable in these cases to the alternative of major shifts of functional responsibility.

10. That, since the need for a coordinated review of financial support, and performance and requirements is greatest with respect to national programs, the Director should from time to time as circumstances permit, request the IAC to prepare coordinated statements of member agencies' budget needs with regard to specific national programs. A specific case in point proposed for such treatment is the [REDACTED]. 25X1A

25X1A 11. That the DCI should prepare with the cooperation of the IAC a statement of the annual budget needs of the members of the IAC for [REDACTED] production and to submit such a statement to the Bureau of the Budget for its information, the DCI then requesting funds for all of these needs except for the Department of Defense where it is anticipated departmental policies or the peculiarities of the budget processes within Defense would seem to require them to submit budget requests directly. (Tab C)

25X1A 12. That the present practice of CIA reimbursement to State for [REDACTED] should be continued. However, in the event that either State or Defense is unwilling or unable to sustain its share of the enterprise, consideration should be given to transferring the clearing house function to CIA financed entirely by CIA (Tab D).

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13. That reimbursement for [REDACTED] is proper and should be continued (Tab E).

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RECOMMENDATIONS:

14. That the release of this report to the Bureau of the Budget and to the State Department be authorized as a basis for discussion by the Deputy Director (Support) and the Special Assistant to the Director for Planning and Coordination with those two agencies ^{25X1A} looking toward agreement on the method of financing [REDACTED] as soon as possible.

in order to achieve
as proposed 49B-11, 12, 13
15. Should an issue arise as to the desirability of compiling comparable budgetary statements covering all the intelligence activities of the Government for use by the Bureau of the Budget in the budgetary estimating process prior to issuance of final allowances, the DCI should advise the Director of the Bureau of the Budget or other reviewing authority that the preparation of such budgetary statements would be impossible without major changes in the budgetary practices of the departments and agencies concerned.

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Tab A

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THE NSCIDs AND REIMBURSEMENT

1. The National Security Council Intelligence Directives, while drawing a design for the maximum cooperation among IAC agencies do not go into financial matters, except by implication in phrases which protect the resources of the member agencies. Thus, the intelligence organizations shall provide or procure such intelligence as may be required by the DCI or by one of the other departments or agencies "within the limits of their capabilities." Their major mission is admitted to be to make their own research facilities "adequate to satisfy" the agencies' individual needs, taking full cognizance of the undertakings of other agencies. They are enjoined to "endeavor," but are not required, to maintain adequate research facilities to accomplish production tasks allocated to them and also to provide reports or estimates within the dominant field of interest to meet requirements of other agencies. The collecting and reporting facilities of the agencies while being utilized so as to avoid unproductive duplication and uncoordinated overlapping should insure the full flow of intelligence to meet the major needs of all the departments and agencies "within budgetary limitations."

2. It is therefore clearly recognized that each of the IAC members has a function or functions allocated to it and that the output in regard thereof must be made freely available to all. However, it is also recognized that each agency's primary target is departmental need and that departmental interest provides both the primary motive and real limitations.

3. There is no NSCID provision which authorizes reimbursement except in the case of NSCID-10 which applies to collection of scientific intelligence. The Office of Scientific Intelligence (OSI) recommended that reimbursement be provided State


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under this provision, but this was not approved by the Bureau of the Budget even though CIA and State had agreed on CIA support of the [REDACTED] program. The NSCIDs do not suggest explicitly (with the exception of NSCID-10) any alternative in the event that an intelligence agency is unable, because of financial limitations to meet the legitimate requests from outside of its own Department. NSCID-1, paragraph 3 does state the general injunction that "Coordination of intelligence activities should be designed primarily to strengthen the overall governmental intelligence structure. Primary departmental ~~requirements~~ requirements shall be recognized and shall receive the cooperation and support of the Central Intelligence Agency" (underlining supplied). Such support presumably could be, though need not necessarily be, financial, or it might take such form as testifying to the Bureau of the Budget on behalf of another agency's program. Another inference can equally well be drawn, namely, that where production capabilities are inadequate and cannot be sufficiently strengthened to meet the needs of another IAC agency the requesting agency is then free to produce intelligence to meet its own needs or responsibilities.

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3. Alternatively, the reallocation of functions in whole or in part might take place under the provision that the general delineation of dominant interests is "... subject to refinement through a continuous program of coordination..." (NSCID-3, para-



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4. The omission in the NSCIDs of any reference (except in NSCID-10) to reimbursement suggests that the law had already adequately covered this practice. Furthermore, where the NSCIDs refer to the limits of budgets, the NSC, it is believed, merely indicated that its directives gave no budget authorizations beyond

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those which are received from the Bureau of the Budget. The NSC did not indicate specific limits on reimbursement practices authorized by the law. Of course, inter-departmental reimbursements are reviewed by the Bureau of the Budget to assure that no violation of the controls over appropriations occurs.

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Tab B

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Coordinated Budget Presentation for the
Intelligence Community

PROBLEM:

1. To determine the desirability and feasibility of the formulation and presentation to the Bureau of the Budget and Congress of a coordinated statement of the budgets of the intelligence activities of the agencies of the Government.

DISCUSSION:

2. It is clear that the intent of the National Security Act and the NSCIDs is that the Agencies represented on the Intelligence Advisory Committee are to operate insofar as possible as a system, interrelated and interdependent. While the Act and the Directives accord due respect to the fact that the individual intelligence agencies must meet their departmental responsibilities, the separate agencies are to be managed as to achieve coordinated intelligence in the interest of national security.

3. Despite the necessity for budget requests to be related directly to the coordinated intelligence program, there is at present no machinery by which this can be accomplished. Present procedures provide only for each of the IAC agencies to present and justify their estimated requirements for the intelligence function independently to the Bureau of the Budget and Congress. In addition, as intelligence activities frequently cut across appropriation items, it is not even possible always to identify readily by agency or, at times within an agency, the funds requested for carrying out the intelligence function.

4. Due to the lack of a coordinated formulation and presentation of an Intelligence Community Budget, there is no mechanism by which either the Bureau of the Budget or the Con-

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gressional Committees on Appropriations can be made fully aware of the interdependence of the IAC agencies and assured wherein the individual agency requests are essential to the coordinated community effort. As a result, there is no assurance that the action taken on the estimates by either the Bureau of the Budget or Congress will be consistent among the IAC agencies in regard to provision for intelligence activities.

5. To the extent that the allowances granted by the Bureau of the Budget for submission of estimates to Congress of the funds finally appropriated by Congress represent a reduction from the amount originally requested, adjustments must be made by the individual departments in the various activities, including intelligence, within the general appropriation item. Due to the lack of a coordinated Intelligence Community Budget there is also no systematic way to assure that, in this adjustment process, intelligence activities essential to the community effort are not impaired.

6. An Annual Coordination of Intelligence Budgets: The solution to the difficulties set forth in the foregoing paragraphs might be for the IAC to undertake annually the coordination of the member agencies' intelligence budgets prior to submission to their respective agency or departmental budgets and, of course, prior to submission to the Bureau of the Budget.

7. This procedure might be as follows:

(a) The IAC might establish a Budget Subcommittee to prepare for IAC consideration a coordinated statement which might include the intelligence activities in the member agencies identifying them, insofar as possible, wherever they may be.

(b) This statement might be accompanied by an analysis of the interaction of the activities covered by these budgets with some explanation of the way in which

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gaps in intelligence collection or research have been identified during the previous year thru post mortems of NIEs and other research.

(c) Upon approval by the IAC, each of the agencies might report to its respective agency or department and to the Bureau of the Budget the views of the IAC, including reference to such items, if there be any, on which the IAC members were unable to identify sufficiently a community interest.

(d) The Budget Bureau might earmark, in the granting of allowances to the individual IAC agencies, the amount approved for intelligence activities. To the extent that the allowances reflect reductions in the original amounts requested, the IAC Budget Subcommittee might study and advise the IAC of the effects of the cuts on the coordinated intelligence program, with appropriate recommendations. When deemed necessary, the IAC would appeal to the Budget Director the action taken on the allowances and make every effort to secure restoration of essential items.

(e) The individual agencies might be advised of final IAC endorsement of the coordinated statement as an essential requirement to the coordinated Intelligence Community program.

(f) The IAC Budget Subcommittee would study and report to the IAC the effects on intelligence activities of the final appropriation action taken by Congress. The IAC, as required, would give appropriate support to the intelligence officials in the individual agencies to assure that in the final allotment of funds adequate provision is made for carrying out each agency's responsibilities in the coordinated intelligence program.

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8. Difficulties in the Coordinated Approach: There are many practical difficulties, however, that would have to be overcome before the above model plan could be fully effectuated:

(a) As intelligence activities frequently cut across appropriation items, it is not possible to identify readily and accurately the funds reflected in estimates for carrying out the intelligence function. There is a need for considerable further study (1) to determine a standard classification of intelligence activities which could be used by all IAC agencies for budget purposes, (2) to obtain agreement among the agencies as to the items to be reflected under each category to insure uniformity in reporting, and (3) to develop adequate costing formula and techniques for identifying intelligence costs when activities do not coincide with appropriation items.

(b) In many instances where intelligence activities do not coincide with allotment accounts it will not be possible to secure an accurate accounting record of cost experiences. Only on an estimated basis, therefore, will it be possible to compare actual performance with the budget plan.

(c) The present tight budget schedule leaves little opportunity for the IAC to make a thorough review and analysis of the budgetary requirements. To be most effective, the IAC review should occur before the agency estimates are made to the respective departments and would require a very thorough evaluation of program performance. It does not appear that sufficient time would be available within the present budget review schedule to permit such a time consuming review.

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(d) Under present budget practices each department must submit its estimates within an overall budget ceiling. The proposed review by the IAC would place it in a position of possibly appealing to the Budget Bureau for funds for intelligence activities in excess of that which the individual department believed it possible to allocate within its ceiling figure.

9. An Alternative to the Coordination of Intelligence Budgets:

25X1B A less ambitious, but more practical, effort to solve this problem would be for the IAC to undertake annually the coordination of a statement of member agencies' budget requirements to permit their participation in specific community programs. Such a statement would include a presentation of the IAC program in question, the justification for the program, and an explanation of the importance of the member agencies participation for achievement of the program. The [REDACTED] is such a program and would provide an excellent starting point for this approach.

10. Experience gained in handling selected programs in this manner would be useful in a longer range effort to study and resolve the difficulties which appear today to be insurmountable in regard to the preparation of coordinated budgets of intelligence agencies. It is, of course, possible that such further study would show such total coordination to be unwise as well as unworkable.

CONCLUSIONS:

11. That it is not feasible at this time to develop a statement covering all intelligence activities which would show the responsibility, measure the performance, and give the cost of each on a comparable basis because present budgetary and accounting practices do not permit the segregation of intelligence activities from other elements in departmental budgets.

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12. That, since the need for a coordinated review of financial support, and performance and requirements is greatest with respect to national programs, the Director should from time to time as circumstances permit, request the IAC to prepare coordinated statements of member agencies' budget needs with regard to specific national programs. A specific case in point proposed for such treatment is the [REDACTED] 25X1B

13. Should an issue arise as to the desirability of compiling comparable budgetary statements covering all the intelligence activities of the Government for use by the Bureau of the Budget in the budgetary estimating process prior to issuance of final allowances, the DCI should advise the Director of the Bureau of the Budget or other reviewing authority that the preparation of such budgetary statements would be impossible without major changes in the budgetary practices of the departments and agencies concerned.

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ANNEX A

NATIONAL SECURITY COUNCIL INTELLIGENCE DIRECTIVE NO.3

COORDINATION OF INTELLIGENCE PRODUCTION

(Approved 1/13/48; SECRET)

Pursuant to the provisions of Section 102 of the National Security Act of 1947, and for the purposes enunciated in paragraphs (d) and (e) thereof, the National Security Council hereby authorizes and directs that the following over-all policies and objectives are established for the coordination of the production of intelligence:

1. In order that all facilities of the Government may be utilized to their capacity and the responsibilities of each agency may be clearly defined in accordance with its mission, dominant interest, and capabilities, the whole field of intelligence production is divided into the following categories, and responsibilities are allocated as indicated:

a. Basic Intelligence

(1) Basic intelligence is that factual intelligence which results from the collation of encyclopedic information of a more or less permanent or static nature and general interest which, as a result of evaluation and interpretation, is determined to be the best available.

(2) An outline of all basic intelligence required by the Government shall be prepared by the CIA in collaboration with the appropriate agencies. This outline shall be broken down into chapters, sections, and sub-sections which shall be allocated as production and maintenance responsibilities to CIA and those agencies of the Government which are best qualified by reason of their specialized knowledge and experience.

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of their intelligence requirements, production capabilities, and dominant interest to assume the production and maintenance responsibility.

(3) When completed, this outline and tentative allocations of production and maintenance responsibilities shall be submitted for NSC approval and issued as an implementation of this Directive. It is expected that as the result of constant consultation with the agencies by the Director of Central Intelligence, both the outline and the allocations will be revised from time to time to insure the production of the basic intelligence required by the agencies and the fullest possible use of current agency capabilities. Changes in the outline or allocations shall be effected by agreement between the Director of Central Intelligence and the agencies concerned.

(4) This basic intelligence shall be continuously maintained in [REDACTED] and continuously maintained in [REDACTED] to cover foreign countries, areas, or broad special subjects as appropriate. The [REDACTED] will be disseminated in such form as shall be determined by the Director of Central Intelligence and the agencies concerned.

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(5) The Director of Central Intelligence shall be responsible for coordinating production and maintenance and for accomplishing the editing, publication, and dissemination of these [REDACTED] and shall make such requests on the agencies as are necessary for their proper development and maintenance.

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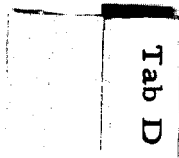
(6) Departments or agencies to be called on for contributions to this undertaking may include agencies other than those represented permanently in the IAC.

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